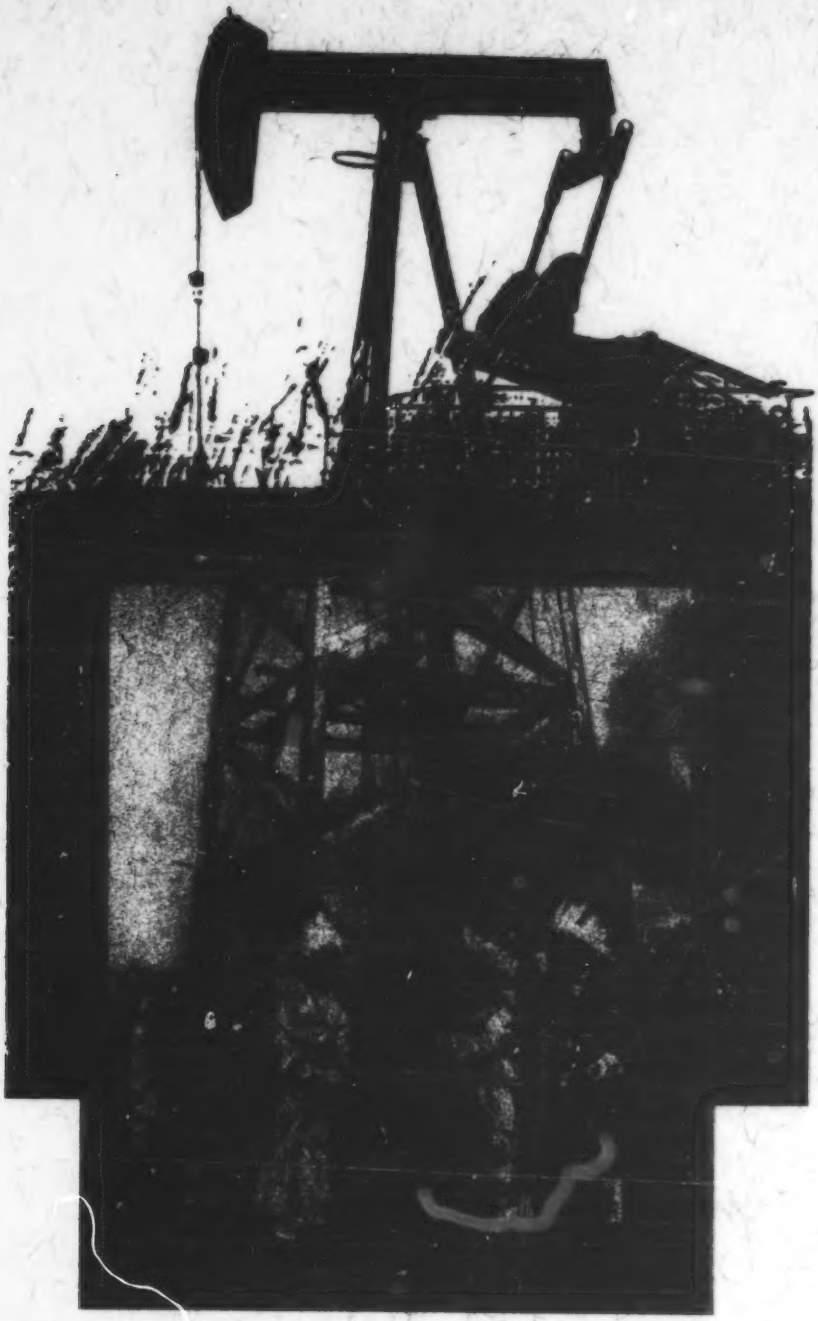
INDIAN OIL & GAS CANADA



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EXECUTIVE DIRECTOR'S MESSAGE

Indian Oil and Gas Canada is responsible for managing and administering the exploration and development of crude oil and natural gas on Indian lands.

Our primary functions are to identify and evaluate oil and gas resource potential; encourage companies to explore, drill and produce these resources through leasing activity; ensure equitable production, fair prices and proper collection of royalties; and secure compliance with and administer the regulatory framework in a fair and equitable manner.

Indian lands provide oil and gas companies with exceptional advantages such as royalties which are fully deductible before calculating income for Federal income tax purposes, large blocks of contiguous land, and negotiable and competitive terms and conditions. There may also be opportunities for major discoveries in those cases where Indian lands are less fully explored or developed than offsetting lands.

Indian lands are unique. They are held in trust by the Crown and come within the ambit of Federal jurisdiction. Exploration and development are contingent upon agreements involving both Band Councils and Indian Oil and Gas Canada, and are subject to Federal legislation, guidelines and reporting requirements as well as applicable Provincial regulations.

Indian lands offer valuable opportunities for oil and gas exploration and development. Bands welcome investment and are prepared to be fully competitive. Good relations based on consultation, mutual trust and respect can provide companies with the stability they are seeking as well as a clear understanding of the rules of the game.

Indian Oil and Gas Canada serves both companies and Band Councils as an advisor and facilitator. Along with the Bands, we look forward to discussing exploration and development opportunities with you.

James R. Eickmeier,
Executive Director and
Chief Executive Officer

HISTORY

Interest in the oil and gas potential of Indian lands began around the turn of the century. Between 1905 and 1910, inquiries were made into lands on the Sarcee, Blood and Blackfoot Indian Reserves in Alberta. In 1911, the first natural gas well was drilled on Indian lands at the Six Nations Indian Reserve in southwestern Ontario.

Shortly after discovery of the Leduc oil field in 1947, discoveries were made on the Stony Plain, Pigeon Lake and Stoney Indian Reserves in Alberta. As the result of increasing oil and gas activity on Indian lands in western Canada, a minerals specialist was hired and located in Calgary in the mid-1950's. This was the beginning of the Indian Minerals unit, which was then responsible for all oil, gas and mineral rights on Indian Reserves throughout Canada.

In the late 1970's, the minerals unit was split into the Indian Minerals (East) and Indian Minerals (West) Offices, which were responsible for hydrocarbon and mineral resources in eastern and western Canada, respectively. Following the recommendations of an All Chiefs Assembly, the Government of Canada established Indian Oil and Gas Canada in 1987, as a special business-oriented agency within the Department of Indian Affairs and Northern Development.

INDIAN OIL AND GAS CANADA

Mission and Mandate

The mission statement of Indian Oil and Gas Canada (IOGC) may be summarized as "working with Indian Bands to promote oil and gas activity in a manner which maximizes overall benefits to the Bands."

IOGC's mandate is to uphold the Federal Crown's legislative responsibility with respect to the leasing of lands, equitable production of oil and gas, and collection of royalties as well as encouragement of Band aspirations for greater self-reliance. Accordingly, two main objectives of IOGC are to fulfil the legislative obligations to Indian Bands, and to facilitate greater Band involvement with management and control of their resource development.

Responsibilities

Currently, IOGC's legislative authority stems from the Indian Oil and Gas Act and the Indian Oil and Gas Regulations. Under this legislation, IOGC is authorized to issue oil and gas rights, and to ensure that oil and gas operations on Indian lands comply with the appropriate regulations, guidelines and procedures.

Geographical Coverage

IOGC's responsibilities are in respect to Indian Reserve lands. For the most part, this means Indian lands in the Western Canadian Sedimentary Basin south of the 60th parallel and, to a lesser extent, sedimentary basins in southwestern Ontario, the Fraser River Delta and the St. Lawrence River lowlands.

Delegation of Ministerial Authority

The Minister of Indian Affairs and Northern Development has delegated to IOGC the authority and responsibility for certain legislative provisions under the Indian Act as well as the Indian Oil and Gas Act. In accordance with these responsibilities, IOGC manages Indian oil and gas resources by entering into various types of agreements with Band Council approval, and with Bands, can negotiate royalty rates as provided for in the legislation.

ADVANTAGES OF INDIAN LANDS

Indian lands offer a number of distinct advantages to oil and gas companies. Royalties paid to Indian Bands are fully deductible before calculating income for Federal income tax purposes.

Large blocks of contiguous land are often available on Indian Reserves. In addition, as leases and permits expire, there is an ongoing turnover of lands available for disposition.

In some cases, Indian lands are less fully explored and developed than Provincial lands, thus there is the possibility for significant discoveries and production.

Leases on Indian lands are negotiable with considerable flexibility as to terms and conditions.

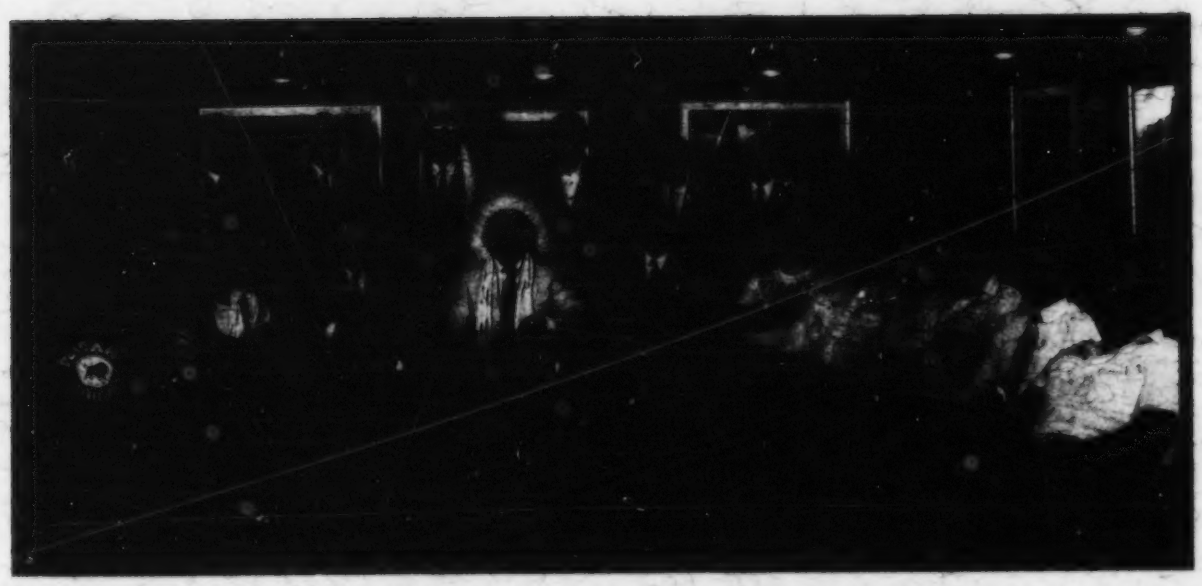
IOGC maintains seismic data bases, and may have geological and geophysical studies for certain Indian lands. Where the material is not confidential, the data and interpretations can be viewed by companies interested in leasing Indian lands.

TRIPARTITE NEGOTIATIONS AND AGREEMENTS

Development of oil and gas resources on Indian lands requires the active participation of three parties: companies, Band Councils and IOGC.

A company may enter into direct negotiations with either the Band Council or IOGC playing the lead role on behalf of the Indian Bands. When the Band Council plays the lead role in negotiating with the company, IOGC acts as advisor to the Council. When IOGC plays the lead role, it acts within a mandate approved by the Band Council. In either circumstance, both the Band Council and IOGC must agree on all terms and conditions in any agreement.

Under the existing procedures and legislative framework, the parties to agreements are the company as the lessee and IOGC as the lessor on behalf of the Crown with the Band Council also signing the agreement.



Successful completion of negotiations among the Peigan Band Council, Canadian Hunter Exploration and IOGC.

OIL AND GAS RIGHTS ISSUANCE PROCESS

Public Tenders

After a request from a company for specific lands and following approval from the Band, IOGC posts the lands, lists the terms and conditions, and invites the industry to submit tenders. The company offering the largest bonus payment is then selected subject to the bonus being acceptable to the Band and IOGC.

Call For Proposals

Following a land request from a company, or on the initiative of a Band or IOGC, the parameters for negotiation are established and IOGC proceeds to advertise the lands. IOGC and the Band then review the different industry proposals and select a company, with which negotiations will proceed, based upon various factors such as royalty rates, work commitments, bonus payments, and employment and training opportunities.

Direct Negotiations

A company expressing an interest in specific lands may choose to directly contact IOGC and the Indian Band. Direct negotiations are then undertaken in an effort to reach an agreement suitable to all three parties.

Surface Rights

The various surface rights agreements incidental to the exploitation of oil and gas resources include surface leases, right-of-way agreements and seismic right-of-entry agreements. Companies are required to make application for these agreements, and negotiate the terms and conditions with the Band Council.

UNIQUENESS

Trust Relationship

Indian lands designated for oil and gas development are held by Her Majesty in the Right of Canada for the use and benefit of Indian Bands. IOGC, in cooperation with and in the best interest of the Bands, is responsible for identifying, administering, managing and leasing of oil and gas resources on Indian lands.

Band Council Resolutions

Development of oil and gas resources can only proceed after the Band Council involved has given its support and approval through a resolution. This extends to a wide range of activities including the granting of exploratory licenses, the negotiation of surface rights, the leasing of oil and gas rights, the establishment of royalty rates, and any amendments to existing agreements.

Regulations

Oil and gas activity on Indian lands must conform to Federal legislation as set out in the Indian Oil and Gas Regulations, copies of which are available from IOGC. Companies are also required to follow certain Provincial legislation which regulates oil and gas operations. For example, prior to the start of any drilling operation, the operator must submit to IOGC a copy of the well license issued by the appropriate Provincial authority. In addition, an operator is required to comply with Provincial legislation relating to the environment, exploration for, development, treatment, conservation, and equitable production of oil and gas.

IOGC is committed to working with companies, Provincial agencies and industry associations to simplify regulations and reporting requirements. To a large extent, Federal regulations, reporting requirements and guidelines closely parallel Provincial procedures. Nonetheless, certain significant differences remain and consultation with IOGC is recommended so that companies can appreciate the differences.

Royalty Provisions

Royalty rates are prescribed and set out in Schedule 1 of the Indian Oil and Gas Regulations. The schedule establishes basic and supplementary rates. The Indian Oil and Gas Act provides for variations in royalty rates subject to approval of IOGC and the Band Council. During the past few years, most new agreements include negotiated royalty rates.

Indian lands must be competitive with Provincial lands in order to attract industry investment. Due to tax advantages of Indian royalties, Indian lands are competitive at royalty rates which may exceed Provincial rates. Each individual Band Council must agree to royalty rates, therefore, the rates and formulas may vary from one Reserve to another.

Companies with production from Indian lands must submit reports and royalty payments. Federal royalties are calculated on the basis of individual well volumes and prices. The reporting requirements and allowable deductions for gas processing costs and approval procedures are set out in the "Reporting Guidelines", available from IOGC.

Environmental Screening and Assessment

Indian Bands regard the environment as the source of their spiritual and physical well being. Therefore, environmental considerations must be addressed at the planning stage of oil and gas projects on Indian lands.

Operators on Indian lands must meet Provincial environmental standards as well as provide information which will satisfy Federal legislative requirements. This is achieved by IOGC conducting an initial environmental screening. The objective is to balance economic and sustainable development within the context of proper environmental management.

BAND INTERESTS AND ECONOMIC OBJECTIVES

Band Interests

Different Indian Bands may have differing interests and priorities which need to be addressed in face-to-face discussions. Only in this manner can the necessary trust be established for a sound and long-term working relationship. The concerns may include the respect for archaeological and sacred sites; preserving land, air and water quality; and protecting people, plants and animals which are dependent upon a healthy eco-system.

In line with increased self-reliance, Bands are exercising a far greater role in the management of their resources. Like any business partner, Indian Bands expect access to all information which relates to exploration and development. In return, the Bands ensure that confidential information is not released to third parties.

Economic Objectives

Indian Bands may have economic objectives and interests which extend beyond royalties and bonus monies. Individually and collectively, Bands have developed a solid capability to provide supplies and services to petroleum companies. Various Bands are actively involved in road construction and maintenance, trucking, gravel operations, well servicing, pipelining and facility construction.

Bands may also be interested in joint ventures or other shared risk, shared profit opportunities. Indeed, a number of Bands have entered into joint venture agreements with oil and gas companies.

In addition, Indian Bands expect access to all reasonable employment opportunities. A number of companies have undertaken to hire and train Band members as field personnel and gas plant operators. Companies are also recognizing the benefits of recruiting Indian graduates from high schools, colleges, technical schools and universities who want to work in the oil and gas industry.

Canadian Indian Energy Corporation

The Canadian Indian Energy Corporation (CIEC), on behalf of Bands with oil and gas resources, promotes training and employment for Indians in the energy sector. It also provides business consulting and advisory services to Bands, and pursues joint venture programs. In its relationship with IOGC the CIEC seeks ways to ensure that Indian interests are recognized and adequately protected.